

NEW APPLICATION
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BEFORE THE ARIZONA CORPORATION COMMISSION
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ARIZONA CORPORATION COMMISSION
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E-04204A-09-0582

G-04204A-09-0582

IN THE MATTER OF THE APPLICATION) DOCKET NO. E-04204A-09-_____
OF UNS ELECTRIC, INC. AND UNS GAS, INC.) DOCKET NO. G-04204A-09-_____
FOR A FINANCING ORDER AUTHORIZING)
VARIOUS FINANCING TRANSACTIONS) **APPLICATION FOR**
) **FINANCING ORDER**

UNS Electric, Inc. ("UNS Electric") and UNS Gas, Inc. ("UNS Gas"), collectively "the Companies", through undersigned counsel, and pursuant to A.R.S. §§ 40-301 and 40-302, hereby respectfully submits its Application for Financing Order ("Application") requesting that the Arizona Corporation Commission ("Commission") authorize the Companies to enter into various financing transactions described more fully herein. The requested authority would allow the Companies to: (1) refinance their joint revolving credit facility that expires in August 2011, (2) increase the amount of joint revolving credit by \$40 million; (3) refinance UNS Gas long-term indebtedness maturing in 2011; (4) increase the amount of long-term indebtedness outstanding at each company by up to \$50 million; and (5) enter into these financings through December 31, 2014. The requested authority is intended to replace the financing authority granted in Decision No. 69395 (March 22, 2007). However, the financing authority granted to UNS Electric in Decision No. 70360 (May 27, 2008), in connection with the proposed purchase of the Black Mountain Generation Station, would continue to remain in effect. As described more fully herein, the Companies believe these authorizations are necessary at this time and are in the public interest. In support of this Application, the Companies state as follows:

Arizona Corporation Commission

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1 **I. BACKGROUND.**

2 UNS Electric and UNS Gas are Arizona public service corporations. UNS Electric is an
3 electric transmission and distribution company serving approximately 90,000 retail customers in
4 Mohave and Santa Cruz counties. UNS Gas is a gas distribution company serving approximately
5 145,000 retail customers in Mohave, Yavapai, Coconino, and Navajo counties in Northern Arizona,
6 as well as Santa Cruz County in Southeast Arizona. UNS Electric and UNS Gas are subsidiaries of
7 UniSource Energy Services, Inc. ("UES").

8 **II. REQUESTED FINANCING AUTHORITY.**

9 In this Application, UNS Electric and UNS Gas respectively request the Commission to issue
10 an order that authorizes:

11 A. UNS Electric and UNS Gas to enter into one or more credit agreements, and to enter
12 into agreements to refinance any such credit agreements, which may consist of one or
13 more revolving credit facilities provided that, after giving effect to the entry of such a
14 facility, UNS Electric's and UNS Gas' revolving credit facilities do not exceed \$100
15 million in the aggregate;

16 B. UNS Gas to refinance its \$50 million in long-term indebtedness due in August 2011;

17 C. UNS Electric and UNS Gas to each issue up to \$50 million in additional long-term
18 indebtedness; and

19 D. UNS Electric and UNS Gas to enter into these transactions on or before December
20 31, 2014.

21 Within 90 days of the completion of any financing transaction made pursuant to the
22 requested Commission Order, UNS Electric and UNS Gas would make a compliance filing with the
23 Commission in which UNS Electric and UNS Gas would provide copies of the relevant agreements
24 and provide a description of the business rationale for such financing or refinancing, including a
25 demonstration that the rates and terms received by UNS Electric and UNS Gas were fair and
26 reasonable under prevailing market conditions.

1 **III. CREDIT AGREEMENTS.**

2 In Decision No. 69395, the Commission authorized UNS Electric and UNS Gas to refinance
3 or amend their Credit Agreement dated August 11, 2006 ("Credit Agreement"). The Credit
4 Agreement consists of a \$60 million joint revolving credit facility and expires in August 2011. UNS
5 Electric and UNS Gas (each a "Borrower") are each authorized to borrow under this facility up to a
6 maximum of \$45 million; however the total combined amount borrowed cannot exceed \$60 million.
7 The obligations of each Borrower are several and not joint, so neither Borrower is liable for the
8 obligations of the other Borrower. The obligations of each Borrower under the Credit Agreement
9 are guaranteed by UES.

10 The revolving credit facility is used as a source of liquidity for working capital purposes, for
11 general corporate purposes and may also be used to issue letters of credit to provide credit
12 enhancement to counterparties for UNS Electric's and UNS Gas' energy procurement and hedging
13 activities. The Companies are requesting authorization to increase the size of their revolving credit
14 facility to provide them with greater liquidity as UNS Electric and UNS Gas continue to grow,
15 including the liquidity to support their commodity procurement and hedging activities. In light of
16 the recent volatility and tightening of the credit markets over the last two years, UNS Electric and
17 UNS Gas believe it is essential that this financing authority is in place to refinance the Credit
18 Agreement well in advance of the August 2011 expiration. At the same time, UNS Electric and
19 UNS Gas would like to increase the amount of their revolving credit facilities by \$40 million to meet
20 their short-term liquidity needs.

21 The refinancing and modification of UNS Electric's and UNS Gas' credit agreements is
22 necessary in order for UNS Electric and UNS Gas to continue providing cost effect, reliable and safe
23 electrical and gas distribution service to their customers, and as such is in the public interest.
24 Therefore, in order to meet UNS Electric's and UNS Gas' short-term liquidity needs, UNS Electric
25 and UNS Gas are seeking authority to enter into one or more credit agreements, and to enter into
26 agreements to refinance any such credit agreements, which may consist of one or more revolving
27 credit facilities so long as, after giving effect to the entry of such a facility, UNS Electric's and UNS

1 Gas' revolving credit facilities do not exceed \$100 million in the aggregate.

2 **A. Credit Agreement.**

3 The Credit Agreement consists of a \$60 million revolving credit facility. The Credit
4 Agreement is unsecured and is guaranteed by UES. Borrowings under the Credit Agreement bear
5 interest at a variable interest rate consisting of a spread over the London Interbank Offered Rate
6 ("LIBOR") or an Alternate Base Rate (similar to a prime rate). As of October 31, 2009, the
7 applicable borrowing rate for UNS Electric and UNS Gas was LIBOR plus 1.00%. UNS Electric
8 and UNS Gas also pay a commitment fee of 0.15% on the unused portion of the revolving credit
9 facility. As of October 31, 2009, neither UNS Electric nor UNS Gas had any loans outstanding
10 under the Credit Agreement.

11 The Credit Agreement has a sublimit for the issuance of letters of credit. Up to \$30 million
12 of the total Credit Agreement amount of \$60 million may be used to issue letters of credit to provide
13 credit support for the energy procurement and hedging activities of UNS Electric and UNS Gas.
14 Fees are payable on the notional amount of the outstanding letters of credit. As of October 31, 2009,
15 the applicable LOC fee was 1.00%. In addition, UNS Electric and UNS Gas pay an "LOC Fronting
16 Fee" of 0.15% to the banks that are issuers of the LOCs. As of October 31, 2009, UNS Electric had
17 \$10.5 million of LOCs issued under the Credit Agreement and UNS Gas had no LOCs issued under
18 the Credit Agreement.

19 **B. Authority to Enter Into Credit Agreements.**

20 As requested in this Application, UNS Electric and UNS Gas are seeking Commission
21 authority to enter into one or more credit agreements to enable them to refinance the Credit
22 Agreement well in advance of its expiration in August 2011. UNS Electric and UNS Gas may enter
23 into separate credit agreements or both companies may enter into the same credit agreement with
24 each having rights to borrow thereunder. Neither company will be liable for the obligations of the
25 other company. Further, UNS Electric and UNS Gas are requesting that the Commission increase
26 the aggregate amount of UNS Electric's and UNS Gas' revolving credit agreements from \$60
27 million to \$100 million. The term of any new credit agreements or the length of any extension of the

1 existing Credit Agreement would depend on market conditions at the time the new agreement or
2 extension was executed but UNS Electric and UNS Gas would expect any such credit agreements to
3 have a term of five years or less.

4 Under the Credit Agreement UNS Electric and UNS Gas currently pay rates on their
5 revolving credit facility that are based on market rates in effect in 2006. In 2006, the bank credit
6 markets were highly liquid and competitive, and companies like UNS Electric and UNS Gas were
7 able to lock in very favorable pricing for a period of five years. In early 2008 the bank credit
8 markets were still liquid but were more expensive to access. Since then, the bank credit markets
9 have experienced extreme turmoil and volatility. The deterioration in credit quality of many large
10 financial institutions and the acquisitions and consolidations in the banking industry have reduced
11 the number of institutions willing to lend, and have caused the pricing to increase dramatically.
12 Recent quotes by financial institutions indicate that if UNS Electric and UNS Gas were to refinance
13 their credit facilities today, they would have to pay a spread of approximately 3.00% over LIBOR to
14 borrow, compared to the 1.00% they are paying today under the Credit Agreement. The Companies
15 cannot predict what the rates will be at the time UNS Electric and UNS Gas are authorized to
16 refinance their facility, but it is likely that they will have to pay a higher rate than they do today to
17 obtain credit at that time.

18 **IV. LONG-TERM DEBT.**

19 In Decision No. 69395, in addition to the authorization to enter into the Credit Agreement,
20 the Commission also authorized UNS Electric to issue up to \$100 million in long-term debt. Under
21 this authority, in August 2008, UNS Electric issued \$100 million of long-term debt, comprised of
22 \$50 million of 6.50% senior notes maturing August 2015 and \$50 million of 7.10% senior notes
23 maturing August 2023. The proceeds of the new long-term debt were used to: (a) refinance the \$50
24 million in 7.61% senior notes that matured in August 2008, (b) pay off outstanding borrowings
25 under its revolving credit facility, and (c) for general corporate purposes. As a result of this
26 financing, UNS Electric does not have any long-term debt that matures before 2015. By contrast,
27 UNS Gas has \$50 million in 6.23% senior notes that mature in August 2011. Because there is no

1 is no existing financing authority for UNS Gas to refinance these notes when they mature, this
2 application is intended to provide UNS Gas with the necessary authority to do so. In light of
3 ongoing capital expenditure requirements and the need for financial flexibility in meeting these
4 requirements, it is further requested that UNS Electric and UNS Gas be allowed to issue up to \$50
5 million of additional long-term debt at each company. The specific terms of any long-term debt to
6 be issued under the requested authority would depend on market conditions at the time of issuance,
7 the credit ratings of each respective company, and other factors such as the maturity dates of other
8 outstanding indebtedness and the mix of fixed and floating rate debt at each company.

9 The new long-term debt could be issued on either a secured or unsecured basis and other
10 terms, such as maturity, interest rate, discount rates or placement fees, security, the nature offering
11 and timing of issuance, would be determined closer to the time of issuance. All transaction-specific
12 terms would be dependent on market conditions and would be negotiated with the intent of obtaining
13 favorable terms to UNS Electric and UNS Gas.

14 **V. DURATION OF AUTHORIZATION.**

15 UNS Electric and UNS Gas request Commission authorization to enter into the transactions
16 mentioned above through December 31, 2014.

17 **VI. USE OF PROCEEDS.**

18 UNS Electric and UNS Gas intend to use their revolving credit facilities for the following
19 purposes: (i) as a source of liquidity for working capital purposes; (ii) to issue letters of credit to
20 provide credit enhancement to counterparties for UNS Electric's and UNS Gas' energy procurement
21 and hedging activities; and (iii) for other lawful corporate purposes.

22 UNS Gas and UNS Electric intend to use the proceeds from the issuance of new long-term
23 indebtedness for the following purposes: (i) refinance existing long-term indebtedness; (ii) finance a
24 portion of their respective capital expenditure programs for the next five years; and (iii) pay-off any
25 outstanding borrowings under their revolving credit facility. As disclosed on pages 57 and 62 of
26 UniSource Energy Corporation's Annual Report on Form 10-K for the fiscal year ended December
27

31, 2008 as filed with the SEC, UNS Gas anticipates capital expenditures of \$85 million and UNS Electric anticipates capital expenditures of \$100 million for the period 2010 to 2013.

VII. UNS ELECTRIC'S AND UNS GAS' FINANCIAL CONDITION.

UNS Electric's ratio of Total Equity to Total Capitalization as of September 30, 2009 was 47%. UNS Gas' ratio of Total Equity to Total Capitalization as of September 30, 2009 was 50%.

Moody's Investor Service has rated the \$100 million of UNS Electric guaranteed senior notes, the \$100 million of UNS Gas guaranteed senior notes, and the UNS Electric / UNS Gas revolving credit facility. As of September 30, 2009, the rating on each of these debt instruments was Baa3.

UNS Electric and UNS Gas believe that the amount of financing authority requested is reasonable and prudent over the time period requested. Further, assuming each company is allowed to fully recover its cost of providing retail service, any financings completed under the requested authority will not diminish UNS Electric's or UNS Gas' financial integrity.

VIII. CONCLUSION.

UNS Electric and UNS Gas believe that Commission approval of their Application would provide UNS Electric and UNS Gas with the required flexibility to access the capital markets in a timely and efficient manner and to select the appropriate financing options to match the purpose of the debt. UNS Electric and UNS Gas believe that the financing authority requested herein is consistent with sound financial practices and their duties as public service corporations, and is in the public interest.

WHEREFORE, for all of the foregoing reasons, UNS Electric and UNS Gas request that the Commission issue an Order:

1. Finding and concluding that the approval of this Application is in the public interest;
2. Authorizing UNS Electric and UNS Gas to enter into one or more credit agreements, and to enter into agreements to refinance any such credit or reimbursement agreements, which may consist of one or more revolving credit facilities so long as, after giving effect to the entry of such a facility, UNS Electric's and UNS Gas'

1 revolving credit facilities do not exceed \$100 million in the aggregate;

2 3. Authorizing UNS Gas to refinance its \$50 million in long-term indebtedness that
3 comes due in August 2011;

4 4. Authorizing UNS Electric and UNS Gas to each issue up to \$50 million in additional
5 long-term indebtedness;

6 5. Authorizing UNS Electric and UNS Gas to provide security for any such financing
7 transactions;

8 6. Authorizing the execution, delivery and performance by UNS Electric and UNS Gas
9 of all contracts, agreements, and other instruments which are incidental to any or all
10 of the foregoing or otherwise deemed by UNS Electric and UNS Gas to be necessary,
11 desirable or appropriate in connection therewith;

12 7. Ordering that the authorization to issue long-term debt, enter into one or more credit
13 agreements for revolving credit facilities in the Order shall replace the existing
14 authorization of Decision No. 69395, that such authorization terminate upon the
15 effective date of the Order, and that all existing obligations incurred under lawful
16 authorizations shall remain valid;

17 8. Ordering that the Order be deemed effective upon issuance and UNS Electric and
18 UNS Gas may enter into the transactions authorized under the Order through
19 December 31, 2014; and

20 9. Granting any other relief that the Commission determines to be appropriate and in the
21 public interest at this time.

1 RESPECTFULLY SUBMITTED this 29th day of December 2009.

2
3 UNS ELECTRIC, INC.
UNS GAS, INC.

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14 Original and 15 copies of the foregoing
15 filed this 29th day of December 2009 with:

16 Docket Control
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18 Copy of the foregoing hand-delivered/mailed
19 this 29th day of December 2009 to:

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